

Message Text

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ACTION ARA-20

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USIA-15 PRS-01 RSR-01 /149 W
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TO SECSTATE WASHDC 7104

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E.O. 11652: N/A

TAGS: EFIN, ETRD, MX

SUBJECT: DISCUSSIONS DURING VISIT OF EXIMBANK DIRECTOR ALEX
MCCULLOUGH

1. SUMMARY: DURING VISIT TO MEXICO JULY 18-21 DISCUSSIONS HELD BY MCCULLOUGH AND ECON COUNSELOR WITH SECRETARY OF TREASURY LOPEZ PORTILLO, CENTRAL BANK DIRECTOR ERNESTO FERNANDEZ HURTADO, GUILLERMO MARTINEZ DOMINGUEZ, DIRECTOR GENERAL, NACIONAL FINANCIERA, AND PRIVATE BANKERS ELICITED INFORMATION OF INTEREST ON A NUMBER OF POINTS. END SUMMARY

2. IN MEETING WITH TREASURY SECRETARY AND UNDER SECRETARY RAMON BETETA, MCCULLOUGH DELIVERED A LETTER FROM EXIMBANK PRESIDENT HENRY KEARNS IN WHICH THE LONG AND CORDIAL RELATIONSHIPS BETWEEN MEXICO AND EXIMBANK WERE CITED AND THE MUTUAL ADVANTAGES OF SUCH COOPERATION WITH EXIMBANK PARTICIPATING IN THE CONTINUING DEVELOPMENT OF MEXICO. MCCULLOUGH EXPRESSED THE INTEREST OF EXIMBANK IN THE CONTINUATION OF THE FINE RELATIONSHIP BETWEEN MEXICO AND EXIMBANK THROUGH THE YEARS AND REFERRED ESPECIALLY TO THE RECENT TRANSACTIONS WHILE LOPEZ PORTILLO WAS PRESIDENT OF CFE.

MCCULLOUGH SUGGESTED IT WAS MORE IMPORTANT TO LOOK AHEAD AND BRIEFLY MENTIONED EXIMBANK EFFORTS TO PROVIDE MEANS FOR SMALL

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AND MEDIUM BUSINESSES WITH FUNDS TO PURCHASE CAPITAL EQUIPMENT

AND THE PROBLEM OF THE 10 PERCENT WITHHOLDING TAX ON THE INTEREST PAID ON FOREIGN LOANS AS A DETERRENT TO THIS OBJECTIVE, AS ALSO DISCUSSED IN THE KEARNS LETTER. IT WAS EVIDENT THE SECRETARY WAS NOT FAMILIAR WITH THE PROBLEM AND HE IMMEDIATELY STATED THE TAX WOULD BE CAREFULLY REVIEWED. AT THAT POINT THE UNDER SECRETARY SAID THE TAX ENACTMENT WAS GENERAL AND APPLIED TO ALL FOREIGN LOANS. MCCULLOUGH RESPONDED TO POINT OUT THE MAJOR IMPACT OF THE LAW WAS ON EXIMBANK WHICH PROVIDED DIRECT LOANS IN CONTRAST TO GUARANTEEING AND INSURING AGENCIES OF OTHER GOVERNMENTS. THE SECRETARY REPEATED HIS PROMISE TO REVIEW THE TAX AND TRY TO FIND SOME WAY TO ADJUST IT. HIS ATTITUDE AND MANNER WERE EXTREMELY FRIENDLY THROUGHOUT THE INTERVIEW. HE INDICATED AN INTEREST IN VISITING EXIMBANK DURING THE FORTHCOMING MEETING OF THE COMMITTEE OF 20 IN WASHINGTON WHICH HE AND BANCO DE MEXICO DIRECTOR FERNANDEZ HURTADO PLAN TO ATTEND. LOPEZ PORTILLO SEEMED CONSIDERABLY MORE RECEPTIVE THAN PREVIOUS GOM OFFICIALS CONTACTED IN THIS CONNECTION (AND MORE RECEPTIVE DURING MEETING THAN UNDER SECRETARY RAMON BETETA).

3. IN SUBSEQUENT CONVERSATIONS WITH MANUEL ESPINOSA YGLESIAS, PRESIDENT, BANCO DE COMERCIO AND GUILLERMO MARTINEZ DOMINGUEZ, BOTH OF THESE OFFICIALS EXPRESSED BELIEF THAT CHANGE IN TREASURY MINISTERS WAS A PLUS FOR MEXICAN ECONOMY. ESPINOSA YGLESIAS REFERRED TO DESIRE OF FORMER TREASURY SECRETARY MARGAIN TO RAISE MEXICAN TAXES AS UNFORTUNATE MISTAKE BASED ON PRESSURE FROM INTERNATIONAL FINANCIAL INSTITUTIONS (WORLD BANK AND MONETARY FUND). ESPINOSA YGLESIAS CLAIMED THAT IN LESS DEVELOPED COUNTRY SUCH AS MEXICO IT WAS MOST IMPORTANT THAT PRIVATE INDUSTRY BE GIVEN OPPORTUNITY (THROUGH LOW TAXES) TO RAISE FUNDS TO FINANCE INVESTMENT PROJECTS AND THUS PROVIDE EMPLOYMENT OPPORTUNITIES. MARTINEZ DOMINGUEZ ALSO EXPRESSED CONSIDERABLE SATISFACTION WITH CHANGE IN TREASURY SECRETARY, SAYING THAT CONSIDERABLE DIFFICULTY HAD BEEN EXPERIENCED DURING PAST 30 MONTHS IN OBTAINING APPROVAL FROM MARGAIN FOR NACIONAL FINANCIERA PROJECTS. HE ADDED THAT, IN BRIEF PERIOD SINCE LOPEZ PORTILLO HAD BECOME TREASURY SECRETARY, ATTITUDE HAD CHANGED COMPLETELY AND PROJECTS NOW BEING DISCUSSED AND APPROVED ON COOPERATIVE BASIS. BOTH OFFICIALS COMMENDED LOPEZ PORTILLO'S FLEXIBILITY AND RESPONSIVENESS AS OPPOSED TO REPORTED INFLEXIBILITY ON PART OF MARGAIN.

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4. MCCULLOUGH BRIEFLY DISCUSSED EXIMBANK'S PROGRAMS WITH ESPINOSA YGLESIAS AND POINTED OUT THE GREAT APPLICABILITY OF THE EXIMBANK CFF PROGRAM FOR BANCO DE COMERCIO BECAUSE OF THE WIDESPREAD OPERATIONS OF THE BANCO DE COMERCIO. A DISCUSSION OF FURTHER DETAILS OF EXIMBANK PROGRAMS WAS CONTINUED WITH JORGE DEL CORRAL, SENIOR VICE PRESIDENT INTERNATIONAL DIVISION, WHO PARTICIPATED IN THE CONFERENCE ALONG WITH ANOTHER OFFICIAL OF THE BANK.

5. IN CONVERSATION WITH FERNANDEZ HURTADO OF CENTRAL BANK HE EXPRESSED VIEW THAT PRIVATE INVESTMENT IN MEXICO WOULD INCREASE DURING COMING YEAR. HE SAID THAT DURING PAST TWO YEARS ECHEVERRIA ADMINISTRATION AND PRIVATE INDUSTRY HAD BEEN ATTEMPTING REACH UNDERSTANDING AND THAT TWO GROUPS NOW ON VERGE SUCH AN UNDERSTANDING. HOWEVER, EXPLORATION THIS SUBJECT WITH ESPINOSA YGLESIAS AND MARTINEZ DOMINGUEZ DID NOT RESULT IN RECEIPT OF SIMILAR OPINIONS FROM LATTER TWO OFFICIALS. ESPINOSA YGLESIAS FELT MAJOR PROBLEM RE PRIVATE INVESTMENT WAS AVAILABILITY OF FUNDS. IN THIS CONNECTION HE EXPRESSED VIEW THAT ADOPTION NEW FOREIGN INVESTMENT LAW WAS A MISTAKE. HE SAID HE HAD BEEN ALONE IN MEXICAN PRIVATE INDUSTRY IN OPPOSITION THIS LAW. MARTINEZ DOMINGUEZ SAID SITUATION RE PRIVATE MEXICAN INVESTMENT WAS A CONFUSED ONE WITH SHORT TERM INVESTORS UNCERTAIN AS A RESULT UNFAVORABLE DEVELOPMENTS AND PUBLIC COMMENTS IN MEXICO AND INTERNATIONAL SITUATION. HOWEVER, MARTINEZ DOMINGUEZ FELT LONG TERM INDUSTRIAL DEVELOPMENTS WERE PROCEEDING AT A SATISFACTORY PACE WITH LARGE-SCALE PROJECTS BEING IMPLEMENTED IN EACH OF MAJOR INDUSTRIAL AREAS.

6. IN DISCUSSION ON OTHER SUBJECTS WITH FERNANDEZ HURTADO HE EXPRESSED PESSIMISM RE POSSIBILITY SUBSTANTIVE AGREEMENTS ON TRADE MATTERS BETWEEN U.S. AND MEXICO, REFERRING TO BELIEF THAT POLITICAL WILL NEEDED IN ORDER MAKE PROGRESS IN THIS AREA. APPARENTLY FERNANDEZ HURTADO FAVORS AGREEMENT AT LEAST BETWEEN MEXICO AND U.S. AS COUNTER BALANCE TO EXPANSION OF EC IN ORDER PROVIDE MORE UNITED FRONT FOR FORTHCOMING MTN. IN HIS VIEW MEXICAN LABOR AND U.S. INDUSTRY AND CAPITAL COULD COLLABORATE USEFULLY IN THIS CONNECTION.

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TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

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FERNANDEZ HURTADO SAID BANCO DE MEXICO STUDY INDICATED MEXICAN INFLATION PROCEEDING AT SAME RATE AS THAT IN U.S. AND HE CRITICIZED MEXICAN GOVERNMENT FOR NOT TAKING ADDITIONAL STEPS TO DIMINISH RESULTS WITHIN MEXICO OF INFLATIONARY PRESSURES FROM ABROAD, PARTICULARLY THE U.S.

7. ADDITIONALLY, MCCULLOUGH COMMENTED ON THE ONE SPECIFIC PROBLEM OF EXIMBANK, WHICH HE EXPRESSED THE HOPE THAT FERNANDEZ HURTADO MIGHT BE ABLE TO REMEDY, I.E. THE RESTRICTION TO A MINIMUM OF A FIVE-YEAR TERM ON CREDITS BETWEEN \$40,000 AND \$150,000. HE REQUESTED FERNANDEZ HURTADO TO CONSIDER THE RELATIVELY SMALL IMPACT AND ADJUSTMENT THIS RESTRICTION WOULD MAKE ON TOTAL CREDIT AND ALSO THE FACT THAT CREDIT OF THE AMOUNT BETWEEN THE FIGURES CITED PRIMARILY SERVED THE SMALL AND MEDIUM SIZED BUSINESSMAN BUYER IN MEXICO. FERNANDEZ HURTADO STATED THIS POINT HAD NOT BEEN REVIEWED RECENTLY AND THAT HE WOULD HAVE IT RECONSIDERED ALTHOUGH HE DID NOT PROMISE ANY CHANGE WOULD BE MADE.

8. MARTINEZ DOMINGUEZ AND MANUEL CALDERON DE LA BARCA, SUB-DIRECTOR, EXPRESSED ENTHUSIASM FOR THE SPECIAL LINE OF CREDIT SET UP BY EXIMBANK FOR NACIONAL FINANCIERA AND ALSO FOR THE NEW CFF LINE BEING ESTABLISHED FOR TRANSACTIONS OF LESS THAN \$1
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BILLION. IN RESPONSE TO QUESTIONS, MARTINEZ DOMINGUEZ AND CALDERON INDICATED THAT STUDIES WERE GOING FORWARD ON SEVERAL POTENTIAL INDUSTRY DEVELOPMENTS IN FOREST PRODUCTS AND FOR A NEWSPRINT PLANT BUT THAT FINAL DECISIONS WOULD COME LATER ON THESE MATTERS. ALSO THEY INDICATED A PRELIMINARY APPROVAL FOR A PARTIAL GUARANTEE OF A CREDIT FOR EXPANSION OF KIMEX SYNTHETIC FIBERS PLANT FOR WHICH A GROUP OF U.S. BANKS, HEADED BY FIRST NATIONAL CITY, IS COMPLETING A PLAN TO PROPOSE TO EXIMBANK FOR PARTICIPATION. MCCULLOUGH MENTIONED THE PROBLEM WITH LAS TRUCHAS PUTTING TOGETHER A LARGE PACKAGE OF PURCHASES OF U.S. GOODS IN ORDER TO TAKE BEST ADVANTAGE OF EXIMBANK FINANCING AND EXPRESSED THE HOPE THAT NAFIN MIGHT BE ABLE TO PROVIDE GUIDANCE FOR LAS TRUCHAS. NO SPECIFIC RESPONSE WAS GIVEN ON THIS POINT.

9. MCCULLOUGH HAD BREAKFAST MEETING WITH OFFICIALS OF BANCO COMMERCIAL MEXICANO ON JULY 20. JUAN O. MONASTERIO, CHAIRMAN OF INTERNATIONAL COMMITTEE OF BOARD OF DIRECTORS, DID MOST OF TALKING FOR BANCO COMERCIAL MEXICAN OFFICIALS. MONASTERIO VOICED

OPINION THAT MARGAIN'S REPLACEMENT BY LOPEZ PORTILLO WOULD HAVE "NO EFFECT" ON MEXICO'S ECONOMIC POLICY. HE SAID THAT ECONOMIC POLICY WAS GENERALLY SET BY PRESIDENT RATHER THAN BY TREASURY SECRETARY AND THAT THIS MIGHT HAVE BEEN ONE REASON FOR MARGAIN'S RESIGNATION. HE CRITICIZED MEXICO'S NEW FOREIGN INVESTMENT LAW BECAUSE LACK OF FLEXIBILITY AND STATED HIS PREFERENCE FOR FORMER ARRANGEMENT OF LESS FORMAL CONSULTATIONS WITH GOM OFFICIALS RE WHAT INVESTMENTS WOULD BE ACCEPTABLE. HOWEVER, HE SAID THAT "MEXICO MUDDLES THROUGH," AND CLAIMED THAT FOREIGN INVESTMENT WAS STILL COMING INTO MEXICO DESPITE THE NEW LAW AND DESPITE LOPEZ PORTILLO.

10. IN ADDITION TO THE CORDIAL RECEPTIONS ON THE CALLS DISCUSSED ABOVE, SATISFACTORY CONFERENCES WERE HELD WITH BANCO DE COMERCIO, BANCO DE INDUSTRIA AND COMERCIO, FIRST NATIONAL CITY BANK, BANCO COMERCIAL MEXICANO, FINANCIERA BANAMEX, AND BANCO DE LONDRES Y MEXICO, DETAILS OF WHICH AFFECT ONLY EXIMBANK.

11. COMMENT. A. IN GENERAL GOVERNMENT OFFICIALS AND PRIVATE BANKERS CONTACTED SEEMED AT LEAST CAUTIOUSLY OPTIMISTIC REGARDING PROSPECTS FOR MEXICAN ECONOMY ALTHOUGH RECOGNIZING SHORT-TERM PROBLEMS. (IN SPEECH TO AMERICAN CHAMBER OF COMMERCE JULY 18 AGUSTIN LEGORRETA, PRESIDENT OF BANCO NACIONAL DE MEXICO WAS LIMITED OFFICIAL USE

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GENERALLY OPTIMISTIC REGARDING LATTER HALF OF 1973 AND ESTIMATED INCREASE IN GNP THIS YEAR AT 7.5 PERCENT.)

B. THE RATHER UNINHIBITED CRITICISMS BY PRIVATE BANKERS AND HEAD OF NACIONAL FINANCIERA OF FORMER TREASURY SECRETARY MARGAIN WERE SOMEWHAT SURPRISING. GENERAL IMPRESSION GAINED DURING DISCUSSIONS WAS THAT DEVELOPMENT BANKING SECTORS, BOTH GOVERNMENTAL AND PRIVATE, ARE HAPPY AT CHANGE IN TREASURY SECRETARY PRINCIPALLY BECAUSE OF BELIEF THAT LOPEZ PORTILLO WILL BE MORE INCLINED TO LISTEN TO VIEWS OF OTHERS AND MORE FLEXIBLE. CERTAINLY LOPEZ PORTILLO DURING DISCUSSION REGARDING EXIMBANK PROBLEMS IN CONNECTION WITHHOLDING TAX ON EXIMBANK LOANS WAS MORE FLEXIBLE THAN TREASURY SECRETARIAT UNDER MARGAIN. TIME WILL TELL WHETHER LOPEZ PORTILLO, WHEN HE GETS HIS FEET ON THE GROUND AS TREASURY SECRETARY, WILL CONTINUE SHOW THIS FLEXIBILITY. MCBRIDE

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